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SUBJECT: ODD NUMBERS: EXPLAINING JIANGSU'S PROVINCIAL ECONOMIC DATA

REF: A. A. Shanghai 444

[1](#)B. B. Shanghai 436

[1](#)C. C. Shanghai 156

[1](#)1. (SBU) Summary: Jiangsu Province economic growth figures do not add up -- provincial GDP growth is well above national average, while key indicators such as exports and electricity production have declined. Jiangsu's reported figures also outshine the province's neighbors Shanghai and Zhejiang, even though the global financial crisis has hit exports similarly hard in all three jurisdictions. Local interlocutors offer a variety of explanations, including shifts in the location and composition of manufacturing within the Yangtze River Delta region and the effects of an infrastructure and real estate boom, particularly in Jiangsu's less-developed north. Some observers, however, also admit that local governments have padded their statistics for political reasons. End Summary.

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Background  
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[1](#)2. (SBU) EconOff traveled to Nanjing, the capital of Jiangsu Province, October 22-23 to meet with local academics, government researchers, and businesspersons to gauge local economic conditions. Although the contacts presented is a picture of province-wide economic growth (ref A). However, they also raised serious concerns about the accuracy and consistency of Jiangsu's economic data, which are described below.

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Jiangsu Province Growing Faster than Neighbors . . .  
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[1](#)3. (SBU) In the first three quarters of 2009, Chinese statistics show that Jiangsu Province grew substantially faster

than its two neighbors in the Yangtze River Delta, Shanghai and Zhejiang Province: Jiangsu rang in 11.7 percent GDP growth, compared with the same period the previous year, while Zhejiang reported its growth to be 7.7 percent and Shanghai, 7.1 percent.

Inland Anhui Province, which is experiencing a boost from the Central Government's stimulus policy (ref B), posted 12.9 percent growth. China as a whole claimed growth of 7.7 percent in the first three quarters. The high reported growth in Jiangsu especially ruffles feathers in Shanghai, which is coming in lower than the national average for the first time since 1991, while Jiangsu reports figures much higher than the national average.

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. . . Even Though Exports and Electricity Output Are Weak

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14. (SBU) Jiangsu's relatively high reported GDP growth comes at a time when it faces pressures similar to Shanghai and Zhejiang in tumbling demand for exports. According to China Customs data, in the first three quarters of 2009 exports from Jiangsu were down 21.7 percent over the same period in 2008, more than Shanghai's decline of 21.1 percent and Zhejiang's decline of 15.1 percent. (Comment: Trade data probably is less susceptible to manipulation by government officials, since it is supposed to reflect the movement of actual goods. However, there are some problems with Chinese trade data, including phantom exports reported to claim value-added-tax rebates, and over- and under-invoicing of exports as a cover for unregistered cross-border capital movements. End comment.)

15. (SBU) Provincial electricity production figures also indicate that Jiangsu industry has been facing headwinds in the

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wake of the global export downturn. Chinese National Bureau of Statistics (NBS) data for the first three quarters of 2009 show that electricity production in Jiangsu is down by 2.09 percent compared with the same period in 2009. The same data for Shanghai show a drop of 5.94 percent, and for Zhejiang a drop of 1.1 percent. By way of contrast, Anhui Province, with reported GDP growth much higher than Shanghai and Zhejiang, reported much more significant electricity production growth during the period: 19.69 percent.

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Locals Claim Jiangsu Benefitting from Industry Transfer . . .

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16. (SBU) When presented with this seeming paradox, interlocutors in Nanjing offered a variety of explanations. One commonly raised factor was the transfer of industrial production from the more coastal areas of the Yangtze River Delta (YRD) -- Shanghai in particular -- to Jiangsu. Hu Guoliang, deputy director of the Economic Research Institute of the Jiangsu Academy of Social Sciences (JSASS), said that Shanghai is in a transition period during which industrial production as a portion of GDP is being downsized, while the service sector is being built up. However, he said, Shanghai's services are still not developed enough to compensate for the drop off in industrial output during the global financial crisis. Shanghai will hold on to a portion of its manufacturing base -- such as some precision instruments, chemicals, and shipbuilding -- but the small textile and chemical factories are moving elsewhere in the YRD and beyond, he said.

17. (SBU) Nanjing University Business School professor Shi Xiancheng, who has studied enterprise restructuring, agreed with this trend, noting as one example that Shanghai Automotive Industry Corp. was cutting costs by shifting parts procurement to Nanjing Automobile Corp. (Note: JSASS's Hu said that Jiangsu's costs are 60 percent lower than Shanghai's. See ref A.) Data reported by Jiangsu Province on industrial production may provide support for this industrial transfer theory: in the first three quarters, Jiangsu's industrial value-added output rose 13 percent over the same period the previous year, while in

Shanghai it fell 1.9 percent, and in Zhejiang it rose only 3 percent.

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. . . Catch-Up Growth . . .

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¶18. (SBU) A second factor mentioned by several interlocutors is that Jiangsu is growing faster because it is starting from a lower base. That is, Jiangsu, especially in the north, is still picking the low-hanging fruit of early economic development, such as moving labor off of overpopulated farms and into industrial production. Wu Min, chief economist of the Nanjing Municipal Development and Reform Commission (Nanjing DRC), for example, said that the current spate of government and corporate investment is particularly effective in northern Jiangsu. (Note: See ref C for details on these trends in the northern port of Lianyungang. End note.)

¶19. (SBU) Some contacts noted that -- as Jiangsu grows more prosperous -- industries there are moving up the value-added ladder, and are becoming more efficient and productive. Jiangsu firms are becoming more likely to use higher technology and lower proportions of energy and raw materials, said Prof. Zhao Shudong, head of Nanjing University's International Economics Department. In fact, these interlocutors noted that this could explain, in part, the province's lower electricity usage.

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(Comment: It is doubtful that this gradual industrial shift could explain the sharp divergence in the ratio of electricity production growth to unit of GDP growth in the first three quarters. End comment.)

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. . . Industrial Development Planning . . .

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¶10. (SBU) Government support is a third factor used by Nanjing contacts to explain the strong growth of Jiangsu. Sheng Li, the deputy general manager of Everbright Bank's Nanjing Branch, noted that local governments have subsidized shipbuilding firms in the province, allowing them to finish off ships under construction even if the orders for the ships have been cancelled. JSASS's Hu said Jiangsu is emphasizing development of ocean shipping, biopharmaceuticals, logistics, agricultural biotechnology, and clean energy such as wind and solar power (see ref A). This may be reflected in Jiangsu's reported strong growth in fixed asset investment during the first three quarters, compared with the same period last year -- 25 percent -- much higher than Shanghai's 12.1 percent and Zhejiang's 13.7 percent.

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. . . And the Resulting Growth in Consumer Spending

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¶11. (SBU) Several of the Nanjing economists noted that higher GDP growth was feeding into higher household consumption, although they offered scant evidence of this. JSASS's Hu pointed to a high contribution of consumption to GDP growth in the first three quarters, but in China's GDP reporting system this figure also includes government procurement (see ref A). NBS household survey findings also tend to discount household consumption as a major driver of the high reported Jiangsu growth compared with its neighbors. In urban areas, Jiangsu's reported expenditures per capita grew 9.55 percent in the first three quarters, while they grew at similar rates of 7.79 percent in Shanghai and 8.23 percent in Zhejiang.

¶12. (SBU) Among rural households, there may be some support for this claim, since Jiangsu's reported cash expenditure per capita in rural areas grew 5.38 percent in the first three quarters, compared to 4.82 percent in Shanghai and 1.23 percent in Zhejiang. However, the Jiangsu figure fell below the reported national growth in rural cash expenditures of 7.35 percent.

Also, rural household expenditure growth rate, as with the urban figures, was less than Jiangsu's provincial GDP growth rate in the same period, suggesting that it was not a key factor in growth.

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But Some Also Admit There is "Water" in the Statistics

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¶13. (SBU) When pressed, a few interlocutors admitted that local officials probably padded their statistics to look good -- called adding "water" (shui fen). One senior economist passed this off, saying that some padding was inevitable, but what mattered was whether real growth was above 7 percent in order to maintain social stability. An academic who has studied Jiangsu enterprises said that some businesses and local governments probably had worked together to give a false impression of higher economic growth in 2009. In late 2008, he said, officials and firm executives realized that the economy was in a tailspin, and that they would not be blamed for low growth. At the same time, he said, they anticipated that when the economic

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winds changed, they would be under pressure to show a local turnaround. Thus, some began to underreport local economic growth, "saving" this to boost results in 2009. Comment: This could help explain how industrial value-added increased while electricity production did not.

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Comment

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¶14. (SBU) A visit to Nanjing reveals a striking surge in infrastructure and real estate construction, offering at least superficial confirmation that the economy is growing, even if only as a result of investment spending. (Note: Ref C also highlights this theme of growth led by a government-directed industrial and infrastructure plan in northern Jiangsu. End note.) Sidewalks and streets are being torn up for additional subway construction, even as some stations are being finished to reveal broad intersections with expensive-looking tooled-metal finishing touches above ground and sleek, modern subway entrances underneath. One meeting brought EconOff to the newly established "University Town" on the city's northeastern outskirts, where twelve institutions of higher learning stretch for miles around, as observed from the top of one university's gleaming new 14-story administrative building.

¶15. (SBU) This economic activity supports the view of one contact that Jiangsu is growing sufficiently for officials in many localities to meet the expectations of their superiors, and to stave off social unrest. But at the same time it underscores the lopsided nature of this growth (see also ref A). In this light, the concerns about padding of economic growth figures in Jiangsu add further doubts about the sustainability of the current Jiangsu economic growth pattern. More generally, the suggestions that economic data continues to be manipulated for political ends serve as a reminder to treat all Chinese statistics with skepticism.

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